# In the Supreme Court of the United States.

OCTOBER TERM, 1904.

THE UNITED STATES, APPELLANT,
*v.*
THE HARVEY STEEL COMPANY. } No. 275.

*APPEAL FROM THE COURT OF CLAIMS.*

## BRIEF FOR THE UNITED STATES.

### STATEMENT.

This action was brought in the Court of Claims to recover royalties alleged by the claimant to be due under a contract made between the claimant and the United States, through the Secretary of the Navy, for use of the so called "Harvey process" for the treatment of armor plates for war vessels. The process had been patented in the United States on the 29th of September, 1891, by Harvey, and assigned by him to the claimant prior to the making of this contract. The circumstances leading up to and surrounding the contract are as follows, as shown by the findings of fact:

In 1890, before the Harvey process was patented, the claimant exhibited to the Chief of the Bureau of

Ordnance of the Navy Department an armor plate, and informed him that it had been treated by a process discovered by Harvey, and was superior to all other armor plates then known. Thereafter the Chief of the Bureau of Ordnance subjected armor plates which had been treated by the claimant, in comparison with other plates from well-known manufacturers, to various ballistic tests, and the results indicated that armor plates which had been treated by claimant were greatly superior to any other known plates, and that the probable result of such treatment was the production of an ideal armor plate, a hard front combined with a tough back, without any weld or other line of demarcation between the two. Following these tests, at the request of the Navy Department, an option was given by the claimant to the Navy Department on the 3d day of March, 1891, for the purchase of the application of the Harvey process for treating armor plates. This option was accepted by the Navy Department, and provided for the payment by the United States of a sum not to exceed $75,000 as royalty for the use of the process if found of value after further tests, and that the Navy Department was to have the right to use the process, should it so desire, without further compensation upon armor plates of vessels the construction of which was authorized by Congress at that date, but that in the event of the authorization by Congress of the construction of other vessels of war, a new contract for the further application of the Harvey process of treating armor plates was to be made be-

tween the parties, if the Navy Department should so desire. It also contained the following provision:

> It is understood that the Navy Department will undertake to bear all the expense of the experimental development of the process as applied to armor plates, our Mr. Harvey to furnish, in consultation with the Bureau of Ordnance, all details at present in his possession in regard to the process or which he may personally develop in the perfection of his methods of treatment as applied to armor-plating.

Thereafter, on the 21st day of March, 1892, a contract was entered into between the claimant and the Secretary of the Navy, reciting that the claimant was the owner of the patent for the Harvey process; that the parties had agreed to use armor plate treated by this process upon certain naval vessels of the United States; that the option above referred to had been given to the Navy Department by the Harvey Steel Company and accepted by that Department. The contract thereupon provided for the use by the United States in the treatment of armor plates for the naval vessels named in the contract of the process known as the "Harvey process," and in consideration therefor, for the payment to the claimant of nine-tenths of 1 cent per pound of such armor plates to cover cost of treatment and royalty. Thereafter additional trial armor plates were subjected to numerous experimental tests by claimant and the Navy Department, and on the 8th day of October, 1892, the

claimant was notified that the Harvey process was definitely adopted by the Navy Department.

On the 18th of February, 1893, and on March 14, 1893, the United States, pursuant to the contract of March 21, 1892, required the claimant and its Mr. Harvey to give to the Navy Department its secret process and improvements, which was done. On the 30th of March, 1893, the Secretary of the Navy proposed to the claimant, by letter, that the contract of March 21, 1892, be annulled, the price to be paid for the cost of treatment of armor plates by the Harvey process having been arranged for by contracts with the Bethlehem Iron Company and the Carnegie Steel Company, and that a new contract be made between the parties, by which the United States should agree to pay the sum of $96,056.46 total royalty for the armor which the Department proposed to Harveyize for the vessels named in the contract of March 21, 1892, and also for the *Iowa* and *Brooklyn*, not therein named, and to pay a royalty of one-half of 1 cent per pound on all future contracts for armor to be treated by the Harvey process, the claimant to furnish all information regarding the composition of the compound employed in the Harvey process and all information regarding its application in possession of the company, also any improvements which the Harvey Steel Company might make in said process at any future time. Thereafter, on the 12th day of April, 1893, the claimant and the Navy Department entered upon the contract which is the basis of this action. This contract,

after reciting that the claimant was the owner of the patented rights in and to the Harvey process, referring to the letters patent thereon, proceeded to provide for the use of said process by the United States on the terms contained in the proposal of the Secretary of the Navy above referred to, and to warrant the same, and contained also the following provision:

> In case it should at any time be judicially decided that the party of the first part is not legally entitled, under the letters patent aforesaid, to own and control the exclusive right to the use and employment of said process and the decrementally hardened armor plate produced thereunder, as set forth in letters patent aforesaid, then the payment of royalty under the terms of this agreement shall cease, and all sums of money due the party of the first part from the party of the second part as royalty for the use and employment of said process and armor plates as aforesaid shall become the property of the party of the second part.

On the same day that this contract was entered into the United States paid to the claimant the said sum of $96,056.46 royalties under the prior contract, less 10 per cent reserved pursuant to the final contract, until the Navy Department should be satisfied upon receipt of the formulæ for the compounds used and employed in the application of the Harvey process and the trial of the same, that the process was efficient and valuable, and afterwards, on December 7, 1893, this 10 per cent reserve was, pursuant to such provision, paid to claimant.

On the 15th of April, 1896, the Secretary of the Navy advertised, inviting proposals for the supply of nickel-steel armor-plates for the battle ships *Kearsarge* and *Kentucky*, and in the advertisement required of bidders that the said armor plates should be "treated by a process of super carburization, known as the Harvey process." The advertisement also notified bidders that:

> The prices paid for armor treated by the Harvey process must not include anything for royalties, as the Department has acquired the right to use said process and will indemnify the contractors against all claims thereof.

On the 1st day of June, 1896, the Secretary of the Navy entered into two separate contracts with the Bethlehem Iron Company and the Carnegie Steel Company, in which those companies agreed to furnish in certain proportions the armor described in the said advertisement, including therein the "Harveyed" armor, and in compliance therewith they proceeded to manufacture and treat the armor plate, and supplied and delivered the same to the United States. These plates were manufactured under the inspection and supervision of officers and agents of the Ordnance Bureau, and were accepted and paid for by the Bureau as having been treated by the Harvey process. The rate of royalty of one-half of 1 cent per pound on the plates of armor so treated and supplied to the United States amounted to the sum of $60,806.45, for the payment of which the claimant made demand upon the Navy Department, which was refused.

The court also found that it had never been judicially decided that the claimant is not legally entitled, under the letters patent for the Harvey process, No. 460262, to own and control the exclusive right to the use and employment of the process aforesaid and decrementally hardened armor plate produced thereunder.

In addition to the findings of fact made by the court, the United States requested the court to also find certain other facts, considering the same material and proven by the evidence in the case. Such requested facts consisted, in substance, of a description of the manner in which the armor plates upon which royalty was claimed in the action had been treated, namely: That plates of low steel—that is, steel containing a comparatively small percentage of carbon—were packed between a mass of carbonaceous material on the side intended to receive the impact of projectiles, and a mass of noncarbonaceous material on the other side, within a heated chamber in a furnace; that the furnace was then fired up and the heating chamber was maintained for a period of several days at a heat which was ordinarily above the actual melting point of some varieties of cast-iron, after which the plates were allowed to cool and were removed from the furnace; that the plates were then reforged, whereby they were rendered thinner and more compact; that after the reforging the plates were again heated to about 1,350° Fahrenheit, and were chilled or quenched by spraying them with jets of cold water; that the essential features of the process

described in the patent relied on by claimant were (1) operating on a low steel plate; (2) packing carbonaceous material on one side of the plate and non-carbonaceous material on the other; (3) subjecting the plate so packed to a high heat; (4) hardening the plate while it was cooling off after its subjection to said high temperature by spraying it with cold water; that there was neither novelty nor invention in any one of said steps, nor a combination of them, at the time said patent was applied for nor at the time the patentee claimed to have made the invention covered by said patent, unless the high heat mentioned in the patent was a heat above 3,100° Fahrenheit; that if said patent prescribed the use of such heat, there was novelty and invention in that one step and in no other; that the melting point of cast iron was now known to vary from 1,880° to 2,280° Fahrenheit, according to variety, but that this fact was not established until several years after the said patent was granted, but at the time said patent was granted many authorities well recognized in the metallurgy of iron and steel maintained that the melting point of cast iron was sometimes as high as 2,920° Fahrenheit; that a person skilled in the art at that time would have been perfectly justified in holding to said opinion; that for a long period prior to the application for the Harvey patent, the following facts were commonly known to the art: That iron or low steel would take up carbon if heated in contact with carbonaceous material; that parts of

the material thus operated on could be protected from the carbon by packing noncarbonaceous material over the same; that the carbon penetrated gradually from the surface inward, and such was always the result of such operations; that steel containing as much carbon as the carburized faces of the armor plates in question could be hardened by quenching with cold water or otherwise; that all these facts had been frequently set forth and described in many patents and publications long prior to said application; that such processes of carburization had been commonly applied to iron and steel and the product subsequently hardened by quenching, with the result of gradual carburization from the surface inward, in some cases extending to the depth of an inch or an inch and a half below the surface; that various articles had been thus treated long prior to said application; that large plates with the same characteristics as such articles could have been made by the same process at the same place and during the same time; that the process of carburizing and hardening the armor plates in question was fully described in a British patent in 1879, which patent gave persons skilled in the art sufficient information to enable them to produce such armor plates; that the desirability of supercarburizing and hardening armor plates had been repeatedly suggested and advocated in various patents and publications prior to the Harvey patent, and the manner in which it could be accomplished was well known to those skilled in the art; that there is no nov-

elty or invention in the use of any particular carbonaceous material employed on the armor plates in question. (Additional record, pp. 1–3.)

The Court of Claims refused to make the findings thus requested.

Judgment was rendered by the court in favor of the claimant for the sum of $60,806.45. From that judgment this appeal was taken.

## ASSIGNMENT OF ERRORS.

1. The court erred in refusing to make the findings of fact requested by the United States, set forth in the additional record on pages 1, 2, 3, and 4.

2. The court erred in holding that the United States was estopped from disputing the validity of the Harvey patent, and that such issue could be properly tried only in an action for infringement.

3. The court erred in holding that the United States was estopped from setting up the defense that the armor plates in controversy were not manufactured according to the Harvey process, as defined and limited in the patent.

4. The court erred in rendering judgment for the claimant.

## ARGUMENT.

This action is based on a contract between the claimant and the United States, in which the United States agreed to pay the claimant a specified royalty for the use of a process for hardening the face of armor plates for war vessels, described in the contract as a patented

process known as the "Harvey process," with special reference to letters-patent thereon, and reciting that the claimant was the owner of "all and singular the patent rights" thereon. The contract contained the specific agreement that—

> In case it should at any time be judicially decided that the party of the first part [the claimant] is not legally entitled, under the letters-patent aforesaid, to own and control the exclusive right to the use and employment of said process and the decrementally hardened armor plates produced thereunder, as set forth in the letters-patent aforesaid, then the payment of royalty under the terms of this agreement shall cease, and all sums of money due the party of the first part from the party of the second part as royalty for the use and employment of said process and armor plates as aforesaid, shall become the property of the party of the second part.

The claim arose through the action of the Secretary of the Navy in refusing to pay royalties amounting to over $60,000, which the claimant demanded as having accrued under the contract, for use of the Harvey process in the treatment of armor plates manufactured at the instance of the United States for two of its battle ships.

As a defense to the action, the United States introduced evidence which, it insisted, tended to show, and in fact established, that the Harvey process, which the claimant, in the contract relied upon, had described as and represented to be a patented process, was in effect

not a patented process, because the patent therefor owned by the claimant was invalid or, if valid at all, was so within certain narrow limits, and as thus restricted the process had not been used at all by it. Upon this evidence the United States asked the court to make the findings of fact to that effect detailed in the statement of the case herein.

The Court of Claims refused to make the findings thus requested by the United States or any other determination of the issue thus raised, or to make any examination of the evidence offered in support thereof, and there being no other defense interposed, judgment was entered for the claimant.

One member of the court, however, dissented, and announced in his dissenting opinion, in substance, that the findings asked for by the United States, in relation to the defense interposed by it, were supported by the evidence.

**Basis of the decision of the Court of Claims.**

The Court of Claims applied to the defense interposed by the United States an estoppel *in pais* in the following language:

> A plainer case of estoppel never came before a court. The defendants first bound the claimant's hands by a contract which secured the right to themselves to use the invention and precluded the claimant from prosecuting the manufacturers as infringers. They next closed the claimant's eyes as against the manufacturers by advertising that the plates to be made were

> to be treated by the "Harvey process," and that "the prices bid for armor treated by the Harvey process must not include anything for royalties, as the Department has acquired the right to use said process, and will indemnify the contractor against all claims therefor." They did not rescind the contract or give a notice which would have put the claimant on its guard or enabled it to proceed against the manufacturers, but stood silent until the work was done and they had received the fruits of their agreement. Having received every possible benefit that was assured to them by the contract, they now seek to evade its obligations. (Majority opinion of the court, record, p. 30.)

But in thus holding the court ignored the fact that the contract called for the furnishing by the claimant to the United States of a *patented* process; that the claimant not only warranted the validity of this patent, but entered into an express agreement that there should be no liability on the part of the United States for unpaid royalties accruing under the contract or for any further use of the process in the event that the patent should be judicially declared to be invalid. It thus appears that the essence of the consideration for the agreement in the contract on the part of the United States to pay royalties to claimant for the use of its process was the fact, as represented by the claimant, that such process was a patented one, and the irresistible conclusion is that no such contract would have been entered into by the United States at the time had it not accepted as true the claimant's representation

that the process was a patented one. Yet the court absolutely ignores this vital fact in the case, and proceeds to apply the doctrine of estoppel to the United States precisely as though the process which is the subject of the contract had never been patented.

Thus the court found it comparatively easy to construct an estoppel against the United States out of the various facts and circumstances connected with the tests by the United States of armor plates which the claimant had treated by its process prior to the making of the final contract with the claimant and the acceptance by the United States, subsequent to this contract, from the Bethlehem and Carnegie companies of armor plates treated by said process, having eliminated from all relation to those facts this controlling and preeminent fact: that the whole contract turned absolutely upon the claimant's warranty therein of the patent upon its process. But whilst the facts thus edited might estop the United States from thereafter denying that it had approved the Harvey process, or at any rate from rejecting satisfactory plates that had been treated by the Harvey process, how can it be contended that such acts and declarations on the part of the United States also estop it from denying the validity of the patent? In this connection it will be found instructive to compare the two contracts between the claimant and the United States. In the first contract there was no provision made in regard to the invalidity of the patent. It may, indeed, properly be termed a preliminary and experimental contract, made

in order that the United States might establish to its entire satisfaction the value of the Harvey process. At its termination, and at the time of the making of the last contract, there was due under it to the claimant, for use of the process, $96,000. As to this indebtedness the United States might have been estopped to set up the defense of invalidity of the patent, for there is nothing in the first contract to indicate that the validity of the patent was in any way taken into consideration therein. But when the final contract was made the situation was very different. The Navy Department, through its experts, had by that time demonstrated that armor plates treated by the Harvey process were in every respect satisfactory, and the time had now arrived for the making of a permanent contract between the parties. Then it was that explicit provision was made with respect to the validity of the patent for the Harvey process. The propriety of this provision is manifest. Indeed, it would seem to have been a plain violation of official duty on the part of the Secretary of the Navy to have left out of the contract this important provision or to have entered into any agreement with the claimant to pay royalty for use by it of this process, without any reference to its validity as a patented invention. By way of illustration, suppose that at this particular time the Secretary of the Navy had received information of the evidence which was offered by the United States at the trial of this action tending to show the invalidity of the patent, and had reached the conclusion that the patent was

invalid, would he have been warranted in entering into any further agreement of any sort with the claimant to pay royalty for the use of the process, and would he not have been fully justified in proceeding to use the process as the common property of the public?

But here we are met by the statement of the court that under the contract the claimant not only licensed the United States to use its patented process, but also bound the claimant to disclose the formulæ for the compounds used and employed in the application of the Harvey process, and to save the United States harmless from any demands of others alleging infringement of patent rights claimed by them in the said process; that it bound the claimant to furnish full and complete information regarding the composition of the compounds employed in the Harvey process and the application of the same, and also to impart to the United States all information concerning any and all improvements that said party of the first part may at any time in the future make in or upon said process, with the right to adopt and use and employ any or all such improvements in said process without the payment of any compensation therefor—all of which the claimant, so far as it had been called upon, had fully complied with. (Second majority opinion of the court, record, p. 36.) Along the same line it is contended, on behalf of the claimant, that by the Harvey process the making of armor plates was revolutionized, and the United States received great benefit by the use of the process; and upon all these

considerations it is urged that for the United States to attempt in any way to escape liability for the payment of royalty for the claimant's process is in every sense bad faith. In fact, the contention of the claimant and the reasoning of the Court of Claims amount to this, that after the making of the contract of April 12, 1893, the United States was bound, not only legally, but upon every consideration of fairness and justness, to pay to the claimant the stipulated royalty for all armor plate used by it that has been subjected to the Harvey process.

A complete answer to this is to be found in the fact that the value of the Harvey process was demonstrated and made known to the world through the efforts and at the expense of the United States. Before the claimant had received his patent he brought his process to the attention of the United States, in order that such tests and demonstration might be made. This was undoubtedly done for two reasons: First, because no private party could possibly have the means of subjecting armor plate to the necessary ballistic tests. Only the United States possessed the artillery and proving grounds and facilities for so doing. The other reason is that the Government was the only possible customer to use the process within the United States. As a result of the tests and experiments made by the United States prior to the final contract the claimant was enabled to present to foreign governments complete proof of the value of the Harvey process, coupled with the most potent fact that it

had been adopted by the United States. Furthermore, the claimant received from the United States for such services as it may have rendered to the United States during this time, with relation to the application of its process to armor plates belonging to the United States, and for such disclosures as may have been made by it relative to its formulæ for the compound used in the application of the process, the substantial sum of $96,000.

Thus at the time of the making of its final contract with the United States, the claimant had had the process tested and its value demonstrated, without expense to itself and in the only way those tests and that demonstration could possibly be made, and was in position to enter into contracts for the use of its process by foreign governments, which contracts it is a matter of common knowledge it did enter into, and it had received as compensation for the use of its process $96,000.

With respect to the various obligations entered into by the claimant recited in the second opinion of the court, it would seem sufficient to say that these obligations are merely incidental to the vital contract obligation of the claimant to furnish to the United States a warranted patented invention as the subject of the payment of royalties by the United States. It was for the use of this patented process that the United States agreed to pay those royalties, and not on account of these incidental obligations; and so the fact that such incidental obligations were carried out by the claimant

can not be offered as consideration for the payment of such royalties after the main obligation has ceased by reason of the invalidity of the patent.

**No estoppel as licensee.**

Another ground of estoppel which was urged by the claimant against the defense, but to which no special reference is made in the opinion of the court, is the proposition that a licensee can not set up invalidity of a patent as a defense to a suit for royalties brought by the licensor. While this contention is true as a general proposition, it has no proper application to the present case. The reason for the application of this doctrine of estoppel is that as a rule a licensee of a patented invention enjoys a practical monopoly, so that it is a matter of indifference to him whether the monopoly is secured by a patent which is valid or invalid. This reason lies so largely at the foundation of the principle, that where a patent has been successfully defied by various persons to such an extent as to do away with a monopoly, such circumstances are held to amount to an eviction. (Walker on Patents, 3d ed., sec. 307.) But no such situation obtained in the present instance. The contract between the claimant and the United States neither created any such monoply nor was intended to do so.

In addition to this it is insisted by the United States that by the provision in the contract providing for the contingency of a judicial determination of the invalidity of the patent there was expressly reserved to the United States the right to dispute the validity of the

patent. But here the claimant contends, and the court in its opinion intimates that this provision had relation only to such determination in an action for infringement. But where and how such action of infringement shall be brought is not specified, and would seem to be in great obscurity. It could not be brought against the United States directly, and the Court of Claims says in its opinion that the United States had bound claimant's hands by a contract which secured to itself the right to use the invention and precluded the claimant from prosecuting the manufacturers as infringers. Hence as there was no possibility that there would be any manufacture of armor-plates within the United States except for the United States, it would seem that no such action for infringement would ever be brought. But whether thus precluded or not there was absolutely no incentive for the bringing of any such action by the claimant. For, consider the situation. By its contract with the claimant the United States had bound itself to pay royalty for all armor-plate which it should cause to be manufactured, and treated by the Harvey process. Next the United States entered into contracts with parties other than the claimant for the manufacture of a large amount of armor plates to be treated by this process, and these contracts would, of course, in due time be followed by others. Thus was created a source of great and increasing revenue to the claimant, involving no action on its part other than to collect and receive its royalties from the United States. And this gratifying con-

dition of affairs, according to the contention of the claimant and the reasoning of the court, could never be disturbed by any act of the United States, but only by an action of infringement brought against the parties manufacturing this armor for the United States. But the claimant would have absolutely nothing to gain and everything to lose in bringing such an action, for, if successful, an injunction against the use of its process would simply result in stopping the revenue which it had been receiving from the United States as the result of such use, while an agreement by the defendant in such action to pay royalty for the use of the process would be merely another way of establishing a condition already existing in favor of the claimant. On the other hand, if the defendant in such action succeeded in establishing the invalidity of the patent, the obligation of the United States to pay royalty to the claimant would cease for that reason.

The practical result, then, of this contention that the United States is estopped to deny the validity of the patent for the Harvey process is to nullify the provision of the contract by which the United States was to be absolved from liability under the contract in case the patent should be judicially declared invalid. On the other hand, the contention of the United States imparts to this provision a manifest reason and purpose, which is that the United States might at any time, acting upon information which seemed to warrant such action, bring the question of the validity of the

patent to the test of a judicial determination by refusing to pay accrued and unpaid royalties under the contract, on the ground that the patent was invalid. This was exactly the course pursued by the Secretary of the Navy in this case. The result was the bringing of this action in the Court of Claims. As a defense to that action, the United States urged the reason which had actuated the Secretary of the Navy to refuse to pay royalties to the claimant under the contract, namely, the invalidity of the patent. Thus the question provided for in the contract was brought squarely in issue, and if the Court of Claims had determined that question, and upon the evidence which the United States insists was amply sufficient therefor, had found that the patent was invalid, not only would the liability of the United States for the payment of royalty under the contract be at an end, but the unpaid royalty, which was the subject of this action, would by the same provision become the property of the United States, and hence its liability to pay the same to the claimant would also be at an end.

Nor is this contention that, under the contract, the validity of the patent for the Harvey process could only be brought in question in an action for infringement sound, for the following reasons:

The market for armor plate is limited to governments which maintain naval establishments. The contract with the United States did not grant any exclusive rights. Despite those contracts, the claimant was at perfect liberty to contract with other governments

and other consumers for the use of the process, and in fact did so contract. If the patent is valid, those contracts would be protected and no one else could manufacture armor plate for such government. If, on the other hand, the patent is not valid, then either the claimant or anyone else would be at liberty to make such contracts with other governments and fill them. In either event the result, so far as the United States is concerned, would be the same—that is, that such other governments would be furnished with armor plates either by the claimant or by someone else applying the same process, and it can make no manner of difference to the United States under which scheme such manufacture should be conducted. In the one event there might be a judicial determination that the patent was valid, and in the other event there might be a judicial determination that the patent was invalid in some action between parties, strangers to this record. But what interest would the United States have in that litigation? Whichever way it might turn, the result would be the same as far as the United States is concerned. Therefore, if the claimant's construction of this clause of this contract is correct, the United States has imposed a contingency upon which it shall cease to pay royalties, in which contingency it has not the slightest interest. It might as well have made a payment of royalties under this contract contingent upon any other event, such as whether Mr. Harvey should live until the expiration of his patent or not. So far as the effect of

the happening of the contingency upon the United States is concerned, one would have as much effect as the other under such construction. In other words, such a construction of this clause of the contract turns it into a clause of forfeiture—that is, upon the happening of a certain contingency, concerning which the United States cares nothing, the contract should come to an end. This construction should be avoided, if possible.

On the other hand, the construction contended for by the defendant would be of direct benefit to the United States, and directly in line of protecting the interest of the United States in a very reasonable manner, and such a construction is more particularly necessary in the case of a party which contracts, as the United States does, through various officers, than it would be in the case of an individual.

It has already been pointed out that, at the time the United States entered into the first contract with the claimant, just what the process was was a matter of considerable doubt, and even at the time the last contract was entered into various features of it were still matters of doubt, because it was especially provided that the claimant should furnish particular information in regard to certain steps, and should furnish all the information it had as to the present or future workings of the operation. Furthermore, the officers directly interested in making this contract were experts upon the subject of armor, but of course did not pretend to be experts upon the subject of patent law. They were

in position to know or ascertain that armor manufactured as the plates in question were was superior armor, and it was their province to procure such armor for the United States. Upon the subject, however, of whether the process that produced such armor was novel and patentable they were not informed, and were not supposed to be. It would, therefore, be very natural for them to take the position that in the event the claimant had the right to control the manufacture of such armor, as it claimed to have, then they were willing to bind the United States to pay for the use of such process. But if, on the other hand, it should turn out that the claimant did not have the right to control the process, then they, very properly, would take the position that the United States should not be bound to pay for the use of the process when that event became apparent. This is the protection which they should have afforded to the United States, and it is reasonable to say that it is what they intended to afford by these words. They very properly took the position that, *prima facie*, the claimant had the right to control the process. That being so, the claimant should not be subjected to a denial of those rights except upon a hearing at which it was represented, and a determination made by a tribunal which was properly constituted to come to a correct conclusion upon the question.

Finally the clause in question can not properly be construed to apply to a case in which the manufacturers of armor plate for the United States should be

enjoined in an action for infringement by parties claiming under some other patent, and asserting that the patent for the Harvey process was invalid, because if the agents of the United States were thus enjoined, that fact itself would amount to an eviction and bring the contract for royalty to an end, and thus render this clause superfluous and useless. (Walker on Patents, 3d ed., sec. 307; *American Electric Company* v. *Gas Company*, 47 Fed. Rep., 43; *Consumers' Gas Company* v. *Electric Company*, 50 Fed. Rep., 778.)

Moreover, it would seem to follow from the logic of the decision of the Court of Claims that the United States would be estopped in any event from asserting the invalidity of the patent as a defense to this action, no matter how that invalidity might be determined. For suppose an action for infringement had been brought and the patent declared invalid. How could such a decision modify in the slightest the facts asserted and relied upon in the majority opinion, that the United States has received from the claimant every possible benefit that was assured to it by the contract and more than its officers expected (first opinion of the court, record, p. 30; second opinion of the court, record, p. 36); that "when the Secretary of the Navy, adopting the recommendation of the Chief of the Ordnance Bureau, decided that the process was efficient and satisfactory * * * he rendered a decision irrevocable, so far as courts are concerned, and that there had been no failure of consideration;" that this is a case where the defendant has received from the other party

all that the contract promised or that it expected to receive? (First opinion, pp. 31–32.) In this view of the case it seems impossible to escape the conclusion that the court would have held the United States estopped from setting up in this action the fact that the patent upon the claimant's process had been judicially determined to be invalid; for, according to the reasoning of the court, such fact would have no effect to disturb the facts relied upon by the court as paramount that the United States has received from the claimant all that the contract promised or that it expected to receive, *supra*, and that "apart from the question of estoppel, the defendants, in the opinion of the court, have received all that they bargained for." (Second opinion, rec., p. 37.)

**An essential element of estoppel wanting in this case.**

An essential element of an estoppel is that the other party must have been led to change his position for the worse. This element the United States insists is utterly lacking in this case. The utmost that can be claimed is that by the conduct of the United States in approving and announcing its approval of the plates treated by the Harvey process the claimant was led to believe that the United States would continue to subject all armor plates used by it to that process and to pay the claimant royalties thereon, and that the United States has disappointed it in this expectation. But the disappointment of such expectation certainly can not be said to be such a change in the position of the claimant as to create an estoppel. The claimant must

have done something or refrained from doing something. What was it? The Court of Claims suggests that if the claimant had not been misled by the action of the United States it might have sued the Carnegie Company or the Bethlehem Company for infringement. But, as has already been pointed out, the claimant could not possibly have been the gainer by such a suit and might have been the loser. Nor was the position of the claimant changed for the worse by the fact that the United States accepted armor plates from the Bethlehem and Carnegie companies as treated by the Harvey process. The United States made these contracts, not with the claimant but with third parties, for furnishing certain armor to be treated by claimant's process. The claimant took no action in the matter, and was not induced to change its position in any manner, as might have been the case if it had itself manufactured the plates, treated them by the Harvey process, and delivered them to the United States, relying upon the action of the United States in testing and approving prior plates thus treated.

**What claimant's contention comes to.**

Correctly viewed, the contention of the claimant is that the United States, the party especially and vitally interested in the question of the validity of the patent, is estopped to raise that question, but must await the unlikely and improbable action in that regard of the claimant, whose interest is wholly against raising the question, or the vague and remote possibility of the question being raised by nebulous strangers. What

this comes to is that the question is never to be raised at all.

On the other hand, the construction urged by the United States is the only one that can be given to the clause in question which comports with the situation and makes it a reasonable one. And why should the claimant shrink from a trial of the issue raised by the United States in a court especially fitted by long experience with such questions to determine the same? It is not for a moment to be supposed that the United States would have entered into a contract with the claimant to pay it royalties for the use of its process unless it had been understood that that process was a patented one. Indeed, the very fact of a contract for the payment of royalties for use of a process carries with it the idea that such process is a patented one. That the claimant understood this is evidenced beyond peradventure by the fact that it described and represented its process as a patented one, not only at various times prior to the contract, but in the contract itself, while in the same contract it made the obligation and continuance of the agreement of the United States to pay royalties absolutely dependent upon the validity of that patent. This is so obvious that the claimant makes no contention that the United States is bound by the contract if the patent is invalid, but simply attempts to split hairs as to how that question of validity shall be raised and determined. This attitude is indefensible from any point of view. It is contrary to the clear meaning of the contract, and is intrinsically without

merit. The claimant represented to the United States that it had a valid patent, and warranted that validity. The United States, by its defense in this action, has simply called upon the claimant to make good that representation. If the patent validly covers the process used by the United States, the claimant has but to demonstrate that fact, and this whole controversy is at an end. If the patent has not such validity, then the claimant has neither a legal nor a just claim upon the United States.

Indeed, it would seem nothing less than extraordinary that the claimant should practically seek to take advantage to itself of the clause in the contract which the United States had supposed was inserted for its benefit and protection, but which, as interpreted by the claimant and the Court of Claims, is merely an ingenious snare into which the United States was lured and in which it is now entangled. It would seem that if it was the intention of the parties that the United States should be precluded from asserting the invalidity of the patent, there should have been inserted in lieu of this clause a provision that the United States should not, during the continuance of the contract, dispute or object to the validity of the patent.

**The patent, if valid at all, was so within such restricted limits as not to include the process that was actually used in treating the armor plates upon which royalty is claimed in this action.**

There is another phase of the defense raised by the United States, and upon which findings were requested

by it, namely, that the Harvey patent was invalid unless it be held to be restricted to the use of a heat above 3,100° F., and that as thus restricted the process was not used by the United States. (Additional record, p. 2.)

This defense is in no wise inconsistent with the defense of the invalidity of the patent set up by the United States, but is in entire harmony with it, for it carries with it the contention that in so far as it is claimed by the claimant that the Harvey process extends to the much lower degree of heat which was actually employed in the treating of the armor plates for the *Kearsarge* and *Kentucky*, it is invalid. This defense was also included in the estoppel by which the court held the United States was bound, and for practically the same considerations, the substance of which is that the United States had had ample opportunity to inform itself fully about the process and the scope and application of the patent before it entered into its final contract with the claimant, so that before entering into that contract it was the duty of the United States to point out any invalidity in the patent as applied to the process used, and since it did not then speak on that subject it can not now be heard to do so; also, that the subsequent action of the United States in accepting plates from the Bethlehem and Carnegie companies, as treated by the Harvey process, created an estoppel against the contention that such process as validly defined in the patent had not been applied to such armor plates.

The answer to this proposition is that at the most these circumstances indicate that at the time of the making of the final contract the United States was misinformed or had a mistaken idea of the actual valid scope of the patent on the Harvey process, which mistake is not a proper ground upon which to base an estoppel. But before elaborating this point, it is insisted that there is nothing in the findings to show that the United States was fully informed as to the Harvey process, or had made ample tests of the same as a process at the time of the making of the final contract. On the contrary, it appears from the findings that what had been done by the United States was to test armor plates which had been subjected, as alleged by the claimant, to the Harvey process, and these tests were applied to the plates themselves to demonstrate their power of resistance, strength, toughness, and general efficiency. So that the subsequent acceptance by the United States of armor plates under its contract with the Bethlehem and Carnegie companies simply indicated that those plates were up to the standard of the plates that it had previously tested. For there can be no doubt that the plates would have been accepted if found satisfactory in respect to general physical qualities and ability to resist the prescribed ballistic tests if these results had been produced by a process entirely distinct from the Harvey process. In a word, so far as its contracts with the Bethlehem and Carnegie companies were concerned, the United States was interested in results, not methods; that is to say, it contracted with and paid those companies for satisfactory

armor plates; and it was with the claimant company only that it had a contract to pay for the use of the Harvey process.

Recurring now to the question of estoppel—

*There is no ambiguity in the contract in question which requires construction*, and the facts relied upon by the court as creating an estoppel are only evidence of the understanding of the parties as to the construction of the contract.

The contract is entirely without ambiguity. It states:

> Whereas the party of the first part is the owner of all and singular the patented rights in and to a certain process, known as the Harvey process, for the treatment of armor plates for use in the construction of vessels, and of the exclusive right to the use and employment of armor plates manufactured according to said process, as particularly set forth in letters patent of the United States, No. 460262, issued September 29, 1891, to Hayward A. Harvey, of Orange, New Jersey, for certain improvements in decrementally hardened armor plates and in the art of manufacturing the same.

It then proceeds to give the United States the right to use and employ "the aforesaid Harvey process" on certain terms. Here is no ambiguity. The right to use the process described in the patent and not some other process is granted.

The findings of fact and the court's opinion detail the circumstances leading up to this contract and rely

on those circumstances, in part at least, in construing the contract, to the effect that it was not the process described in the patent that was granted, but another process which both parties supposed was described in the patent, and therefore there is an estoppel against claiming the true construction.

Possibly such circumstances might give a court the right to reform the contract to meet the intentions of the parties, but this is not a proceeding with that end in view. This is an action upon the contract as it stands. In such an action it is not permissible to consider circumstances and negotiations leading up to the contract unless there is some ambiguity in the contract which requires it. Here there is a total lack of such ambiguity.

*Am. and Eng. Enc. Law (2d ed.), vol. 17, p. 23:*

> These surrounding circumstances, however, can not be considered when the instrument is in itself plain and unambiguous without reference to them, since their only possible effect in such a case would be to give the instrument a meaning inconsistent with the language used therein.

*Springsteen* v. *Samson, 32 N. Y., 703:*

> It is conceded to be a sound rule in the construction of contracts that where the language is clear, unequivocal, and unambiguous the contract is to be interpreted by its own language, and the courts are not at liberty to look at extrinsic circumstances surrounding the transaction, or elsewhere, for reasons to ascertain its

intent; the understanding of the parties must be deemed to be that which their own written agreement declares.

*Muldoon* v. *Deline, 135 N. Y., 150:*

After reciting the description of the property conveyed in a deed, the court said:

> It is conceded that this description includes the land in controversy. The defendant upon the trial offered parole evidence of the conversations and negotiations between Burton and the plaintiff, and of other circumstances, to show that it was not the intention of the parties to the deed to include therein this land, and that the first course in the deed should not run at right angles with Rust street, but diagonally so as to strike the southerly line of lot 137, 40 feet from the southerly line of lot 121. There is no ambiguity in the description contained in the plaintiff's deed. Every line can be surveyed on the ground just as it is given, and the grantor had the land. When the description is applied to the land, no ambiguity is produced, and hence there is no room for parol evidence. It is true that the intent of the parties to the deed must control. But that intent must be ascertained from the language contained in the deed. When, however, by applying the description contained in a deed, an ambiguity is raised, evidence may be given to explain that; and if it be found that some particular of the description is false or defective, that may

> be rejected, provided the balance of the description when applied to the land is sufficient to show the intention of the parties. The rule in such cases is derived from the civil law, *falsa demonstratio non nocet, cum de corpore constat,* and is fully explained in the leading case of *Miller* v. *Travers* (8 Bing., 244), and in 1 Greenleaf's Ev., 301. Here there was no patent or latent ambiguity, and no false description which within the rule could be disregarded.
>
> The defendant, in his answer, did not allege any mistake and ask for a reformation of the deed. It is possible that there is a mistake in the description contained in the deeds of both of these parties. If the defendant has any remedy, it is by an action to reform the deeds

This case seems to be controlling on this subject. It applies the rule not only to the interpretation of the contract itself, but to the description of the property conveyed by the contract. In that case it was a piece of real estate. Here it is a process described in a patent. The case also points out the proper remedy of reformation if there is a misdescription in the contract.

To say that the understanding of the parties and their conduct prior to the making of a contract can estop them from claiming the true construction of the contract is to abrogate all these well-settled rules.

If, in an action on contract, either party may be estopped by a showing of what the parties understood to be the meaning of the contract prior to its execu-

tion, and thereby be prevented from relying on the plain terms of the contract, the principle that a contract can not be varied by parole would be of no value, and there would be no place for the frequent action for reformation of contract. All that would be necessary would be to show the prior intention, and an estoppel would immediately arise.

Besides the circumstances preceding the execution of a contract, the actions of the parties thereto after it is made may be considered in its construction. This rule, however, is also subject to the same limitations as that above mentioned—that is, such circumstances can never be considered where there is no ambiguity in the contract. In this case the court evidently relied to a great extent on the conduct of the United States under the contract in suit to give construction to such contract and to the patent therein mentioned. It is insisted that the contract contains no ambiguity which justifies this course.

*Am. & Eng. Enc. of Law (2d ed.), vol. 17, pp. 23–25:*

> The construction which the parties have, by their acts, placed on an ambiguous instrument is entitled to great, if not controlling, weight in determining its proper construction. Such practical construction will, however, be given weight only when the contract or instrument is ambiguous, since a construction contrary to the plain terms of the instrument is necessarily erroneous, and the parties are not bound by their erroneous construction of the contract.

*Railroad Company* v. *Trimble, 10 Wall., 367:*

> Where there is doubt as to the proper construction of an instrument, this feature of the case is entitled to great consideration. But where its meaning is clear in the eye of the law, the error of the parties can not control its effect.

*Davis* v. *Shafer, 50 Fed. Rep., 764:*

> Where the contract in question employs words or terms of doubtful or ambiguous meaning and application, the meaning and application given them by the parties to the contract and acted on by them should prevail over any technical, grammatical, or logical interpretation of the words and phrases. But where the contract is free from ambiguity, and "its meaning is clear in the eye of the law," such evidence is clearly incompetent. (*Railroad Co.* v. *Trimble*, 10 Wall., 367; *Michael* v. *Insurance Co.*, 17 Mo. App., 23; *Chrisman* v. *Hodges*, 75 Mo., 413; *Miller* v. *Dunlap*, 22 Mo. App., 97.)

If the principles above laid down are correct, it is perfectly clear that the conduct of the parties prior to the making of a contract and their conduct in fulfillment of the contract can not be the basis of an estoppel from insisting on the true interpretation of such contract.

If the contract is entirely without ambiguity, to say that the statements and conduct of the parties prior to the contract which show their understanding of its meaning may be the basis of an estoppel against one

of them from showing the true meaning, is to say that such evidence is not only permissible but in the highest degree controlling.

To say that their conduct and statements after the contract is made, and when they are acting under it, estop them from showing the true meaning of the contract, is also to say that such evidence is not only permissible but controlling.

If, on the other hand, the contract is ambiguous, such conduct and statements, both before and after the contract, are permissible evidence; but they are only evidence, and they may be explained and may be offset by counter evidence. They certainly create no estoppel.

In no event should such evidence be considered without considering the counter evidence, prominent among which is the true construction of the contract—that is, the construction which would be given to the contract in the absence of such circumstances. Certainly the weight to be given such circumstances can not well be determined without considering what the construction of the contract is according to its own terms, and how far such evidence is intended to vary such construction.

This the court refused to do in this case.

But the circumstances relied upon by the court as creating an estoppel are only circumstances indicating the understanding of the parties as to the meaning of the contract. As such they may be very good evidence, but they are nothing more.

The United States made a contract for the use, upon compensation, of a certain process described in a certain patent. It did not use that process, but used some other. It did, however, state that it was using, and had used, the patented process, and it made one payment on account thereof. To say that this creates an estoppel is to deny the soundness of the statement of the Supreme Court in 10 Wallace, above quoted, to the effect that a person is not bound by his misinterpretation of a contract.

If a party mistaken as to the meaning of a contract is not bound by his misunderstanding, there can be no duty on him to state what the contract really does mean.

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Upon the foregoing grounds the United States respectfully insists that the decision of the Court of Claims in this action was erroneous and should be reversed.

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